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MEASURES FOR THE ESTABLISHMENT OF A PREFERENTIAL TRADE AREA
FOR NORTH AFRICA

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A. INTRODUCTION

1. The inaugural meeting of the Intergovernmental Negotiating Team of Experts (IGE) of the member States of the North African Mulpoc which took place from 9 to 11 December 1987 in Tangier, Morocco, represented the first concrete positive step towards the establishment of a Preferential Trade Area (PTA) for the North African subregion as called for in the Lagos Plan of Action adopted by the Heads of State and Government of the OAU in April 1980. That positive action resulted from the adoption of three resolutions by the Council of Plenipotentiaries of the North African Mulpoc in March 1985, April 1986 and March 1987 on trade promotion in North African which were subsequently endorsed by the ECA Conference of Ministers in its Resolution 593(XXII) of April 1987. The role assigned to the Intergovernmental Negotiating Team of Experts (INT) was to determine the modalities for the establishment of the proposed preferential trade area.

2. With the above mandate, the inaugural meeting of the IGE considered the various issues relating to the establishment of the PTA ¹/. The INT redefined its role in more precise terms in order to respond fully to the mandate, received. Its main tasks were:

- (a) to undertake all relevant negotiations leading to the preparation² of a draft treaty of the PTA for adoption by the Council of Plenipotentiaries of the Mulpoc;
- (b) the preparation of 11 separate protocols defining the various areas for cooperation among the countries of the subregion and;
- (c) to submit to the Council of Plenipotentiaries any other proposals which would contribute to the establishment of the PTA and a clearing and payments system as well as other protocols which may be considered necessary for initial action towards the establishment of a future economic community of the North African countries.

3. The meeting further established a calendar of meetings for undertaking the negotiations leading to the preparation of the draft treaty and protocols and called for a general study to determine the framework for the treaty as well as for appropriate sectoral studies which would serve as the basis for the preparation of the required protocols. The ECA was also requested to prepare a project document for funding by the UNDP Regional Bureau for Arab States to undertake the activities and prepare the necessary documentation relating to the meetings of the INT.

¹/ Based on Document E/ECA/TRADE/63 submitted to the Council of Plenipotentiaries in March 1987.

B. GENERAL BACKGROUND TO ECONOMIC COOPERATION IN NORTH AFRICA

4. In looking at the history of economic cooperation and integration among various groups of countries around the world, it is noted that this has not been achieved without full political commitment by participating countries. It also a truism to state that the process of economic integration has generally been achieved successfully in gradual stages - stages which take into account national interests. The benefits that are likely to accrue in the long run, to individual member countries of a proposed grouping have provided the necessary incentives for these countries to pursue their original objectives. It must also be noted, at the outset that the viability of an integration attempt will depend on the measures designed to ensure that both benefits and costs will be distributed as equally as possible among all the participating countries. It is therefore against this backdrop that some major issues of economic cooperation will be examined to establish the general framework for negotiations on the establishment of the PTA for North Africa.

5. The process of economic cooperation and integration among the Arab countries has been in motion since the 1940s following the creation of the League of Arab States in 1945 and the achievement of independence of the Arab speaking countries of Africa. With particular reference to the countries of the North African Mulpoc, these arrangements, apart from bilateral agreements, have tended to emphasize the affinity of subgroups such as those of the Arab Maghreb made up of Morocco, Algeria, Tunisia and Libya while Egypt and Sudan have extended their relations to the Middle East countries of the Arab Mashreq. More precisely, attempts at economic cooperation among the Maghreb countries started with preliminary talks between Morocco, Algeria and Tunisia in Tangier, in April 1958 which finally resulted in the establishment of the Maghreb Permanent Consultative Committee (CPCM) in September 1964 with Libya also participating, although it has since withdrawn from the group. Mauritania is now also a member of the group. On the other hand, Egypt, Sudan and Libya participated in the Agreement of Arab Economic Unity established in May 1964 and now comprising 13 of the 21 Arab States. The other African countries belonging to the group are Somalia and Mauritania. These attempts at economic cooperation although proceeding slowly, are encouraging. In negotiating the terms of the PTA for North Africa, full consideration should therefore be given to these factors.

6. With regard to cooperation among the Maghreb countries, their ties with France (the former colonial power) have conditioned their relations not only among themselves but also with other Arab countries of the Mashreq. At the time of their independence from France in March 1956, Tunisia and Morocco depended on France from some 80 percent of all their trade ^{1/}. Similarly, Algeria's production structures until its independence were geared to supplying the French market. With the creation of the European Economic Community in 1958, special

^{1/} See Ian Boag on "The contribution of the EEC to the development and integration of the Arab World" in "The Problems of Arab Economic Development and integration" Edited by Adda Guccioucur. Westview Press, Boulder, Colorado, 1984.

trade links were established through bilateral agreements between the EEC and the individual member countries of the Maghreb. The EEC's common agricultural policy and common external tariff were a major disruptive factor in the attempts by the Maghreb countries, as indicated above, to establish cooperation measures among themselves.

7. Following the establishment of the Maghreb Permanent Consultative Committee (CPCM) the agreement did not define the precise terms of economic cooperation envisaged 1/ but its broad features stressed the need to expand trade relations, to coordinate and harmonize policies on industrialization and economic structures, establish new economic relations with the EEC countries etc. The tasks of the CPCM were however, more clearly defined at a subsequent meeting in Tangier in November 1964 when it called for the coordination of development plans and measures for industrial harmonization and multilateral trade expansion. The meeting also established the institutional framework of the CPCM with a secretariat based in Tunis to study economic cooperation problems and propose measures to resolve them. The CPCM also set up a number of permanent and ad-hoc commissions to deal with the production and trade of alfa, industrial expansion, compensation, transport and communications and insurance and reinsurance.

8. The Arab Economic Community Agreement signed in 1964 aimed to establish among its members complete economic unity 2/ that would ensure for them and their citizens, on an equal basis, the freedom of movement of persons, capital and goods; the freedom of residence, employment and economic activity; the freedom of transport and transit; the right to own, bequeath and inherit. They also agreed to make their countries a single customs entity with a unified external tariff and unified customs laws and regulations, to unify their export and import policies and regulations and their transport and transit regulations, to coordinate their agricultural, industrial, commercial and economic policies, their labour and social security legislation and their taxes so as to ensure uniform opportunity for their citizens; to coordinate their monetary and financial policies and regulations as a prerequisite to the unification of their currencies and finally, to conclude jointly trade and payments agreements with foreign countries.

9. As operational aim of the Arab Economic Unity Agreement, the Arab Economic Unity Council was established with provisions for the creation of subordinate committees to assist the council in carrying out its functions. The Council was mandated to make the necessary studies and proposals on the application of the terms of agreement and submit them to the contracting parties for implementation in accordance with their constitutional procedures. Implementation could be extended for another five years.

10. As a first step in the implementation of its mandate, the Arab Economic Unity Council adopted a resolution to establish an Arab Common Market which

1/ L'Unité Maghrébine - Dimensions et perspectives par Roger le Tourneau et al. Centre National de la Recherche Scientifique. Paris. 1972.

2/ See Alfred G. Musrey. An Arab Common Market - Praeger Publishers, New York, 1969.

stipulated the gradual abolition as of 1 January 1965, of all quantitative and qualitative restrictions on the movement of domestic commodities produced by the signatories. A complete removal of all restrictions on trade was envisaged by Jan 1, 1974 ^{1/}. Trade liberalization was to be effected in conjunction with the 1953 Intra-Arab Trade and Payments Convention with a 20 percent reduction annually on agricultural, animal and mineral products while manufactured goods would be completely freed of tariff over a period of 10 years at 10 percent reduction per annum, except for those products which already enjoyed 50 percent and 20 percent tariff reduction under the above mentioned Convention. These products would be fully freed of tariffs at the rate of 10 percent over 5 years and 80 percent over 7 1/2 years respectively.

11. From the above, it will be readily noted that the terms of cooperation envisaged among the Maghreb countries and under the Economic Unity Agreement indicated the clear intention of the member countries to integrate their economies completely in the long run. In the case of the Economic Unity Agreement, the proposals to adopt a common currency goes further than those of the European Economic Community whose economies were at fairly similar level of development at the time of the Treaty of Rome compared with those of the 21 Arab countries who were potentially parties to the Agreement. With regard to the proposals for the harmonization of trade and industrial policies, they are also very comprehensive, with wide ranging implications for individual member countries. Such proposals are generally difficult to apply unless detailed provisions are contained within the Agreement for such propose particularly in the light of the wide differentials in the levels of economic development of the countries involved. In that regard, the low level of participation in the Agreement is indicative of the practical difficulties in the application of such comprehensive measures.

C. TYPES OF ECONOMIC CO-OPERATION INSTITUTIONS

12. The term "Preferential Trade Area" describes the institutional framework set up for promoting economic cooperation among different countries. In the context of the Lagos Plan of Action, the process of economic integration calls for different stages of economic cooperation among member countries leading to the establishment of common markets and economic communities at subregional level to proceed eventually to the establishment of an African Common Market and an African Economic Community. It is therefore necessary at this juncture to define the possible forms of cooperation in order to determine the levels and degree of collaboration envisaged at each stage.

13. The different levels of cooperation can be described as follows ^{2/}:

^{1/} See Adda Gueciouneur: The problems of Arab Economic Development and Integration - Op. cit. Chapter 6.

^{2/} See B.W.T. Mutharika: Towards Multinational Economic Co-operation in Africa. Praeger Publishers - New York, 1972

(a) A Free Trade Area is an arrangement where the member countries of a particular grouping agree to suppress or gradually eliminate among themselves all trade restrictions including tariff and non-tariff barriers. However, each member country of the group is free to determine its levels of tariffs against third countries outside the group. This type of arrangement is the simplest form of economic cooperation and aims to achieve gradually a state of perfect competition among the industries of the member countries whereby inefficient producers are eliminated. It also aims to promote sustained expansion of economic activity, full employment, increased productivity and the rational utilization of resources.

(b) A Customs Union relates to co-operation framework in which tariff on imports from member countries of the union are removed while an agreement is reached to impose a common external tariff on import from non-member countries ^{1/}. A customs union therefore provides for freedom of movement of goods between the partner states while protecting the market within the union from competition from third countries. The level of common external tariff constitutes a major factor in the benefits likely to accrue to the member countries of the union. The establishment of a common external tariff has two direct effects. It diverts trade from low cost third country suppliers to less efficient producers within the union which were not able to compete with outside producers when non-discriminatory tariffs were applied before the formation of the union. The second effect is trade creation through the reduction of inefficient producers within the union by shifting sources of supply to lower cost sources within the union. Under those circumstances, the Customs Union is beneficial to its members if the amount of trade creation outweighs trade diversion.^{2/}

(c) A Common Market is an economic grouping whereby a group of countries agree to eliminate customs duties and quantitative restriction among the member states with regard to goods originating in the member countries, to establish a common external tariff and commercial policies towards third countries and to remove all obstacles to the free movement of persons, services and capital within the economic grouping. The free movement of factors of production is the main feature which distinguishes a common market from the two previous form of economic co-operation. Since all the member countries may not be at the same level of economic development at the time the agreement comes into force, the terms of the agreement may provide for a transitional period for adherence to the rules with special provisions for some member countries of the group.

(d) An Economic Community is the highest form of economic integration. It includes all the features of a Common Market and in addition, calls for the adoption of joint economic policies in all sectors and at all levels of economic development of the members of the community. In other words, member countries agree to integrate all their economic activities and to take joint decisions in all aspects of economic development policies.

^{1/} See Jacob Viner: The Customs Union Issue, 1950.

^{2/} See Victoria Curzon: The essentials of economic integration. Macmillan, 1974.

14. The theoretical analysis of the above forms of economic co-operation agreement is by no means an exhaustive one. In addition to their general features, they include specific elements such as the determination of rules of origin of products traded within the economic grouping, the harmonization of trade documentation and procedures and policies, measures for exchange of trade information, rules governing the movement of persons and capital, the distribution of benefits among member countries, etc. which characterize each particular type of economic cooperation arrangement.

15. In the light of these considerations, the types of protocols requested by The Intergovernmental Negotiating Team of Experts gave an indication of the extent of cooperation envisaged within the proposed PTA through the protocols that are envisaged under the Treaty. The full implications of these protocols and the steps for their implementation will be spelled out in the studies called for by the Intergovernmental Negotiating Team of Experts. The Preferential Trade Area aims at achieving the following immediate objectives:

- (a) to liberalize trade among them through the reduction and eventual elimination of all tariff and non-tariff barriers;
- (b) to improve trade facilitation measures through the harmonization of trade documentation and procedures;
- (c) to facilitate trade financing and payments settlements,
- (d) to promote the free movement of persons and capital and,
- (e) to undertake cooperation measures to promote the development of agriculture, industry, resources of the sea, energy resources and transport and communications services.

D. MEASURES REQUIRED BY MEMBER STATES

16. The establishment of the PTA, as a multinational institution, implies the conferment of a certain degree of supranational authority to that institution. However, this does not imply that the member countries relinquish all authority to that institution. The administrative and executive machinery set up to uphold the institution is made up of country representatives not only to look after the interests of the group as a whole, but also those of individual member countries. In order to ensure compatibility between the national and subregional development objectives and priorities, it is therefore incumbent upon the member countries to ensure their participation ab initio, at the highest level even in the preliminary stages of the work to be carried out.

(a) Action at national level

17. Member countries must ensure that they make a direct input into the studies that will form the basis of the various protocols for their future cooperation. Negotiations on the PTA could become protracted and even lead to acrimonious debates if some countries consider their particular situation has not been fully considered in the preparation of the draft protocols. In order to avoid such situations, prior to the start of negotiations, examine the issues involved and make available all information and views on the subject. Consultations with member countries will be expected to take place through ECA officials or experts appointed to carry out the studies. Member countries should therefore designate a national expert as counterpart to the officially appointed expert to provide all required data and the specific views of the country concerned on the subject of the particular protocol. For that purpose, it is obvious that research work must begin at national level.

18. There is a need for co-ordination at national level to ensure that the country's objectives in the different sectors are consistent with the PTA objectives. It is therefore necessary that as much preliminary work is done by national experts to ensure that the country's negotiating team is fully conversant with the issues to be discussed. In that regard, it seems essential that each participating country should set up a negotiating team made up of representatives from the appropriate ministries, parastatals as well as private sector organizations such as chambers of commerce, manufacturers associations, consumers associations or trading agencies, to consider the major issues of any proposed agreement and protocols. The Committee should not only define the country's objectives but should also participate in the preparation of the necessary documents to provide technical support to the country's negotiating team of experts.

(b) Action at the negotiating level

19. The success of the Intergovernmental Negotiating Team of experts will depend to a large degree on the composition and the preapration of national negotiating teams. Experience in similar negotiation in other subregions shows that the frequent rotation of participants in the various negotiations sessions is detrimental to the attainment of full objectives of the PTA. The lack of continuity noted does not only prevent negotiations from proceeding forward but sometimes retard the negotiations and can lead to a great deal of frustration on the part of other delegations. It is therefore essential that each national negotiating team should have the same Team Leader to provide continuity as well as overall cohesion.

20. A technically well briefed team prior to negotiations does not ensure only the success of the negotiations. Furthermore, it is essential that country delegations should be fully conversant with the basic issues of the protocols to be negotiated as well as their long term implications for the countries concerned. While the long term benefits of the cooperation arrangements envisaged are themselves not in doubt, the terms of implementation of the provisions of the proposed agreement and protocols need to be clearly defined to ensure their applicability, hence the need for highly competent national experts to be involved in the negotiations process.

(c) Action with regard to existing co-operation agreements

21. The Intergovernmental Negotiating Team of Experts, at its inaugural meeting held in December 1987, requested that in preparing the studies and draft protocols, account should be taken of existing bilateral and multilateral agreements between the member countries. The inference to be drawn here is that the terms of these agreements and the experience gained in their implementation should form the basis for the proposed PTA. In that regard, it should be noted that bilateral agreements are quite specific in nature and take account of the immediate conditions and requirements of the two member countries concerned. Because of this specificity, it is unlikely that they can be applied, pari passu to a multilateral situation. Similarly some existing multilateral agreements involving member States of the North African subregion are not confined to that subregion but involve other Arab countries of the Middle East. The problems encountered in implementing the existing bilateral and multilateral agreements do provide insight into the problems of co-operation in the subregion.

22. A point of concern with regard to such agreements is the possibility that their provisions may not always be compatible with the envisaged PTA agreement. In such event, some adjustment might be required to bring them into line with those of the PTA. In all probability, it may be found more practicable to allow the agreements, in particular the bilateral ones, to gradually merge with the operations of the PTA treaty. It would therefore be necessary for the member countries concerned to examine the provisions of these agreements closely to determine their continuing viability and consistency with the PTA.

E. SUMMARY OF CONCLUSIONS

23. From the foregoing analysis, it is evident that the proper implementation of an economic co-operation agreement depends on three major elements: (a) the level of co-operation envisaged according to the terms of the agreement; (b) the level of economic development of participating countries and (c) the provisions contained within the agreement for the implementation of the proposed measures. These elements are interrelated and condition not only the successful implementation of the agreement but also the extent of participation of the parties involved. It is therefore useful to consider these elements carefully in the establishment of the PTA for North Africa.

24. The terms of PTA could involve purely trade liberalisation measures with the removal of tariff and non-tariff barriers to promote trade among the members. This presupposes that complementarity exists in the member States making available goods which could form the basis of trade expansion. Furthermore, the main purpose of liberalizing trade would not be merely to increase the flow of goods among the member countries but to accelerate their rate of economic development. The objective therefore is that trade liberalization efforts should result in the expansion of existing industrial and agricultural production capacities as well as the development of new ones. To that extent, it can be said that trade liberalization should be closely associated with cooperation in production. 1/

1/ See B.W. Mutharika. Toward Multinational Economic Co-operation in Africa. Op.cit.Chapter 6.

25. Trade liberalization can also be linked with measures to promote trade in raw materials and basic goods which presently are being exported to the industrialized countries. The raw materials produced within the North African region could therefore form the basis for diversification of production and joint production ventures to increase the range of exportable products both among the member countries and to third countries. In that regard, other measures generally associated with trade liberalization such as payments arrangements, trade credit and insurance and other financial and monetary measures particularly in connection with exchange rate policies could be geared to promote co-operation and co-ordination of manufacturing activities even on bilateral basis within the group in order to increase the level and range of production.

26. This level of co-operation however does contrast sharply with the type of agreement which call for co-ordination and harmonization of trade and industrial policies implying a higher level of economic development as a basis for such co-operation. 1/ For the purpose of this analysis, it is necessary to point out that co-operation agreements should make provision for co-operation to be developed in stages to take advantage of complementarity and promote joint production in the various sectors of economic activity.

27. Another major consideration is the need for appropriate mechanisms to be established to assess the impact of any proposed measures on the economies of individual member countries. Compensation mechanisms should then be devised to ensure a fair distribution of costs and benefits among the participants since those countries within the group which are at a comparatively low level of development are likely to suffer certain losses not only in terms of customs revenues and other taxes levied on imports but also with respect to the impact on their own industrial development.

1/ See Victoria Curzon: The Essentials of Economic Integration.
Op.cit. Chapter 10.